Texmaco Rail & Engineering Limited

November 04, 2019

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	494.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	5.00	CARE A1+ (A One Plus)	Reaffirmed
Long Term/Short Term Bank Facilities	1,911.99	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total	**2,410.99 (Rs. Two Thousand Four Hundred Ten Crore and Ninety Nine Lakh only)**		
Commercial Paper (CP)*	-	-	**Withdrawn**

**carved out of the sanctioned fund based working capital limits of the company*
Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to Texmaco Rail & Engineering Limited (TexRail) continue to draw strength from the experience of the promoters, long track record of the company, leadership position in domestic wagon segment, diversified operations in the railways segment and Joint Venture (JV) with leading technology & engineering and leasing companies, healthy order book position and rising demand for commodity specific wagons among private players as well as export destinations.
The ratings also take into account the significant improvement in profitability during FY19 (refers to the period April 1 to March 31) as also the debt coverage indicators mainly due to improvement in operating performance of heavy engineering division and steel foundry. The operating profitability continued to remain stable during H1FY20.
The ratings, however, continue to be constrained by the high working capital intensity of operations resulting in elongated operating cycle and moderation in liquidity parameters, competition in the various business segments of the company and exposure to volatility in the raw material prices.
The ratings also take note of the firm plans of the company to raise equity of around Rs.200 crore through a Right issue by January'2020 and also raise long term debt as approved by the Board to meet the long term working capital requirements and improve liquidity.
CARE has withdrawn the rating assigned to the Commercial Paper program of the company at the request of the company and as there is no outstanding under the said issue.

Ratings Sensitivities

Positive Factors:

- Successful execution of present order book leading to improvement in revenue and profitability
- Efficient management of working capital requirement and improvement in operating cycle
- Improvement in capital structure

Negative Factors:

- Further elongation in operating cycle
- Inability to raise resources in the form of equity and long term debt to meet increased working capital requirement
- Increase in net overall gearing beyond unity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

TexRail, faction of the K. K. Birla group, belongs to Mr. Saroj Kumar Poddar, which was subsequently rechristened as Adventz Group. Adventz is an established business group in the country having interest in fertilizers, chemicals, financial services, real estate and sugar. The promoters have significant business experience.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Long track record with diversified operations in railway segment
Texmaco, promoted in 1939, started operations with textile machinery manufacturing. Later, it diversified to heavy engineering and subsequently to railway wagon manufacturing. The company has gradually diversified its operational presence into manufacturing commodity specific wagons for private parties, coaches, electric locomotive shells and Sub-Assemblies supplied to private parties. TexRail is one of the largest players in the domestic wagon manufacturing industry in India.
Over the years, it has added capacity for manufacturing hydro-mechanical equipment, heavy steel structures, process equipment and steel foundry products.
It ventured into rail EPC through acquisition of Kalindee Rail Nirman (Engineers) Limited (KRNL) and Bright Power Projects (India) Private Limited (BPPPL), both of which are now merged with TexRail.
The company has strengthened its position as a total rail solutions provider with presence in wagons, locomotive shells, coaches, bridges, track laying, tele-communications, electrification, etc. Further during FY18, TexRail through its newly incorporated subsidiary Texmaco Transtrak Pvt. Ltd. has signed a MoU with CAF Signaling, Spain engaged in electronic inter-locking and train protection & warning systems. During FY19, TexRail has also incorporated Texmaco Rail Systems Private Limited for manufacturing and supplying parts of railway signaling and transportation systems.

Healthy order book position
The orders of Indian Railways yet to be executed along with orders from private players in respect to wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRN division (Rs.2,315 crore) and BPPPL division (Rs.590 crore) has led to a satisfactory order book position of around Rs.4,660 crore as on September 30, 2019. Further, there were orders of Rs.308 crore in other subsidiaries/JVs. The consolidated order book stood at Rs.4,968 crore as on September 30, 2019.

Improved operational performance in FY19 which remained relatively stable in H1FY20
The company's consolidated total operating income witnessed robust growth from Rs.1,134.45 crore in FY18 to Rs.1,860.78 crore in FY19. The PBILDT margin improved from 5.55% in FY18 to 9.04% in FY19 with improvement in performance of heavy engineering division and steel foundry along with continued high contribution of EPC division which has higher margins. The profit from JV/associates was Rs.2.62 crore in FY19 as against loss of Rs.0.75 crore in FY18. Inspite of marginal increase in capital charges and lower non-operating income, the net profit increased from Rs.12.65 crore in FY18 to Rs.75.41 crore in FY19 and PAT margin improved from 1.07% in FY18 to 4.01% in FY19. Non-operating income was lower at Rs.19.65 crore in FY19 (vis-à-vis Rs.47.63 crore in FY18) due to reduced treasury income during the year and one-time settlement income (~Rs.19 crore) received in FY18.
The company generated GCA of Rs.116.17 crore in FY19 vis-à-vis Rs.40.86 crore in FY18.
The debt coverage indicators of the company witnessed considerable improvement during FY19 with higher operating profit and cash accruals. The PBILDT interest coverage improved from 1.03x in FY18 to 2.39x in FY19. The PBIT interest coverage which was below unity in FY18, also improved to 1.97x in FY19. Net Debt/GCA improved from 11.12x as on March 31, 2018 to 5.21x as on March 31, 2019.
In H1FY20, TexRail reported net profit of Rs.19.40 crore on total income of Rs.879.10 crore as against net profit of Rs.20.93 crore on total income of Rs.746.10 crore in H1FY19. The operating profit margins were relatively stable. However, PAT margin declined due to increase in capital charges.

Moderate capital structure
The capital structure of the company on a consolidated basis remained moderate as on Mar.31, 2019 with debt majorly comprising working capital borrowings. The total debt outstanding remained relatively stable at Rs.676.07 crore as on March 31, 2019 (including mobilisation advances for EPC business) as against Rs.640.58 crore as on March 31, 2018. Consequently, the overall gearing remained stable at 0.59x as on March 31, 2019 (0.60x as on March 31, 2018).
However, the liquid investments decreased considerably to Rs.71.03 crore as on March 31, 2019 from Rs.186.23 crore as on March 31, 2018 to fund the increase in working capital requirement. Accordingly, the net overall gearing increased from 0.43x as on March 31, 2018 to 0.53x as on March 31, 2019.
The consolidated debt (incl. mobilisation advance) stood at Rs.780.41 crore as on September 30, 2019.
The company is in the process of raising equity of about Rs.200 crore through a Rights issue which is expected to be completed by January 2020. Further, the Board of the company has also approved raising term debt as long term working capital. Delay in raising resources as envisaged is a key rating monitorable.

Rising demand for commodity specific wagons among private players as well as export destinations
Apart from supplying wagons to India Railways, TexRail has been receiving large orders of commodity specific wagons from private sector companies. TexRail with capacity of producing these wagons is better placed in the competition to take advantage of this growing demand.

Joint Venture with leading technology and engineering and leasing companies
Texmaco Touax Rail Leasing Pvt Ltd (TTRLPL) is a JV of TexRail and Touax Rail of France, leading Lease Finance Company, having expertise in the business of leasing out freight cars (Wagons) etc. The joint venture is for business of wagon leasing, pursuant to opening up of Wagon Leasing by Railways under its Wagon Leasing Scheme.
Further, the company has also promoted Wabtec Texmaco Rail Private Limited as a JV with WABTEC of US, which is global supplier of highly engineered components and systems for railways and specific industrial markets. Such presence of an established JV partner in the US market is expected to benefit TexRail in developing its export arm of its steel foundry unit.

Stable outlook of wagon industry
Railway is the largest consumer of wagons. The outlook of the wagon industry is mainly dependent on the demand from the same and the budgeted allocation for such outlays. As per budget for 2019-20, overall allocation to railways has increased by 23% which would translate into higher orders for railway equipment manufacturers and capital goods sector including coach and wagon manufacturers, etc. The capital outlay for metro projects has also increased from Rs.14,865 crore to Rs.17,714 crore in Budget 2019-20.
Further, Government of India is expected to focus on improving the railway infrastructure and ensure faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. The new wagon allocation scheme and recent revision in GST structure is also expected to benefit the wagon manufacturers.

Key Rating Weaknesses
Elongated operating cycle
The nature of business of TexRail entails considerable dependence on working capital requirement both in the form of fund-based and non-fund based borrowings. The operating cycle of the company improved to 203 days in FY19 vis-à-vis 257 days in FY18 with increase in scale of operation. However, the average collection period remained high at 217 days in FY19 with large amount of retention money and unbilled revenue.
The average inventory period and average creditor period remained relatively stable at 80 days and 94 days respectively in FY19 as against 89 days and 105 days in FY18 respectively.
The elongated operating cycle has resulted in high utilisation of working capital bank limits and the company has sought for enhancement in fund based limits. Timely release of enhanced limits is crucial from liquidity perspective.

Exposure to volatility with regard to availability and prices of raw material
Earlier, the Railways used to provide free supply of major raw materials required by the companies to manufacture wagons. However, since 2017, the free supply has been discontinued with and the wagon manufacturers have to rely on Research Design and Standards Organisation (RDSO) approved vendors for the supply of major raw materials such as steel, Cartridge Tapered Roller Bearings (CTRB), wheel sets, etc.
The orders for wagons from Railways and private parties (except orders from private parties to be executed in short term, i.e., 1-2 months) have price escalation clause which mitigates the risk of increase in cost of materials to certain extent.
Further, in the rail EPC segment also, the company is exposed to raw material price volatility.

Competition in the wagon segment as well as rail EPC segment
The company faces stiff competition from other established players in the wagon segment. Further, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Liquidity: Adequate
The liquidity position of the company is adequate with sufficient cash accruals as against repayment obligation. The company had cash and cash equivalents (standalone) of Rs.22.15 crore and liquid investments of Rs.34.15 crore as on September 30, 2019. The utilisation of working capital limits was high at about 93% during the last months ended September 2019. However, final sanction of additional fund based limit of Rs.200 crore is under process out of which Rs.50 crore has already been released. The company also has firm plans to raise equity of Rs.200 crore by January 2020 and additional long term debt which is expected to improve liquidity.

Analytical approach: Consolidated financials of TexRail on account of operational and financial linkages with subsidiaries/JVs. The list of companies being consolidated is as under:

Subsidiaries	*Holding of TexRail*
Belur Engineering Private Limited	100%
Texmaco Transtrak Private Limited	51%
Texmaco Defence Systems Private Limited	51%
TexRail (SA) Pty Limited	100%
JVs	
Touax Texmaco Railcar Leasing Private Limited	50%
Wabtec Texmaco Rail Private Limited	40%

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Outlook and Placing ratings under credit watch
Rating Methodology- Consolidation and Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector
Policy on Withdrawal of ratings

About the Company
TexRail comprises businesses of Heavy Engineering and Steel Foundry demerged from Texmaco Limited in the year 2010 as per the Scheme of Arrangement approved by the Hon'ble, High Court, Calcutta. With the said demerger, more than 95% of the business of Texmaco Ltd. became part of TexRail. It is a faction of the erstwhile K. K. Birla group and currently part of the Adventz group of Kolkata. TexRail has an installed capacity of 10,000 Vehicle Units (VUs) of wagons which remains flexible in nature, 20,400 MTPA of Structurals, 10,000 MTPA of Bridges and 30,000 MTPA of Steel Castings. The product range of TexRail comprises of Railway Freight Cars, Hydro-mechanical Equipment, Industrial Structurals, Steel Castings, Loco shells, Electrical Mechanical Unit (EMU), railway bridges and Pressure Vessels which is manufactured across four manufacturing facilities in West Bengal. Besides domestic market, TexRail also has presence in overseas markets.
TexRail acquired equity stake in KRNL in FY14 and subsequently merged it on and from February 11, 2017, with appointed date being April 1, 2014. The business of KRNL of execution of railway projects involving track laying, signaling & telecommunication in India is running as the 'KRN' division under TexRail.
Further, in January, 2016, TexRail had acquired 55% shareholding in BPPPL. BPPPL undertook electrical contracts for erection, installation, commissioning and maintenance of overhead lines, transformers and other equipment mainly for Indian Railways.
BPPPL and another subsidiary Texmaco Hi-Tech Private Ltd were merged into TexRail vide NCLT order received in April, 2019, with appointed date being April 1, 2017.

Brief Financials (Rs. crore)	**FY18 (A)**	**FY19 (A)**
Total operating income	1134.45	1860.78
PBILDT	63.00	168.27
PAT	12.65	75.41
Overall gearing (times)	0.60	0.59
Interest coverage (times)	1.03	2.39

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Facilities/instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Forward Contract	-	-	-	5.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	379.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1911.99	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	July'24	115.00	CARE A+; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A1+	-	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (15-May-17) 3)CARE A1+ (25-Apr-17)	1)CARE A1+ (20-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	379.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Jan-19)	1)CARE AA-; Negative (08-Jan-18) 2)CARE AA-; Negative (15-May-17) 3)CARE AA-; Negative (25-Apr-17)	1)CARE AA- (20-Apr-16)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (25-Apr-17)	1)CARE A1+ (13-Sep-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1911.99	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (08-Jan-19)	1)CARE AA-; Negative / CARE A1+ (08-Jan-18) 2)CARE AA-; Negative / CARE A1+ (15-May-17)	-
5.	Fund-based - LT-Term Loan	LT	115.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Jan-19)	1)CARE AA-; Negative (08-Jan-18)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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